

**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

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**University Examinations 2015/2016**

FIRST YEAR, SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELORS OF COMMERCE.

AND

SECOND YEAR, FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELORS OF PURCHASING AND SUPPLIES MANAGEMENT.

**BEC 3150/3125: PRINCIPLES OF MACRO- ECONOMICS.**

**DATE: AUGUST 2016 TIME: 2 HOURS**

**INSTRUCTIONS: -** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

1. Explain how macroeconomics differ from microeconomics (3 marks)
2. Discuss five causes of balance of payment disequilibrium in Kenya and other developing nations. (10 marks)
3. Briefly describe the credit creation process. (5 marks)
4. Given

Y=National income

C= Consumption

I=Investment

G=Government spending

y=C+I+G

C=a+byd

Derive the Keynesian National income equilibrium identity. (5 marks)

1. State five ways in which the government may finance its budget deficit. (5 marks)
2. Differentiate between terms of trade and balance of trade. (2 marks)

**QUESTION TWO (20 MARKS)**

1. State five uses of national income statistics. (5 marks)
2. Why is GNP per capita not considered a good measure of welfare (standard of living) of a nation. (5 marks)
3. Discuss five tools of monetary policy used by the central bank in your country. (10 marks)

**QUESTION THREE (20 MARKS)**

1. Briefly discuss the concept of multiplier and accelerator as used in national income accounting literature. (5 marks)
2. Discuss the merits and demerits of a fixed exchange rate regime. (10 marks)
3. Commodity market, model is given by

Y=C+I

Where C=100+0.6y

I=1800+2.5r

Money market model

MDT=0.2y

MDS=10.2r

MS=100

Find the equilibrium income and rate of interest. (5 marks)

**QUESTION FOUR (20 MARKS)**

1. Discuss five macroeconomics objectives that are pursued by your government. (5 marks)
2. How can your government remedy the chronic balance of payment deficit? (10 marks)
3. Discuss reasons why Fiscal policy may be ineffective in achieving macroeconomic objectives. (5 marks)

**QUESTION FIVE (20 MARKS)**

1. Discus the role of international trade in economic development. (8 marks)
2. Distinguish between absolute advantage and comparative advantage. (4 marks)
3. List down four determinants of the following. (8 marks)
4. Consumption
5. Investment